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FINANCIAL DIGEST

MONDAY, FEBRUARY 11, 1980 VOLUME XVII, NUMBER 6

JOBLESS JUMP COULD CURB CONSUMERS

If the recession expected by the economic optimists is to occur anytime soon, it must first be reflected in the demand for employment. As long as employment continues to grow, consumers will keep saving less, borrowing and spending more, in their efforts to maintain living standards in the face of rapidly rising prices. It was this spending proclivity that helped keep the economy out of recession in 1979—but also helped fuel higher rates of inflation and interest.

January's labor force developments do not necessarily guarantee that a recession is on the way, but they do keep the possibility of one alive. Total civilian employment fell by 108,000 in January, making the third of the past six months that this key indicator has fallen compared with the previous month. Even more significant was a sharp climb in unemployment. Because of widespread layoffs in autos, construction, and related industries, the jobless totals jumped by 338,000 in the month—the sharpest one-month rise since March, 1975, when the economy was in the deepest part of the 1973-75 recession. The unemployment rate, at 6.2 percent, broke out of the narrow range of 5.7-5.9 percent that it had hovered in from August, 1978 to the end of last year.

January's rise in joblessness was not, however, limited to autos and construction. The unemployment rate rose 0.4 percentage points among workers in softgoods industries, 0.3 points among service employees, and 0.2 points among workers in wholesale and retail trade and at the various levels of government. Demographically, the sharpest increase was registered by adult men, whose jobless rate rose by 0.5 percentage points to 4.7 percent. However, adult women and teenagers also reported higher rates of unemployment. This softness seems likely to continue in February. The Conference Board says that its index of help-wanted advertising did not improve in the latest month, following a sharp decline previously. And more purchasing agents reported lower payrolls in January than they did in December for the third straight month. Workers are beginning to behave as though jobs are harder to come by. January's statistics show that fewer people are leaving their jobs voluntarily while the number of people seeking jobs is not growing as fast as it used to.

WHAT YOU SEE IS NOT WHAT YOU GET

At first glance, the recently-announced Federal budget proposals for fiscal year 1981 imply a significant tightening of fiscal policy. The overall budget deficit is projected to shrink from $40 billion in fiscal 1980 to only $16 billion the following year. What is more, on a full-employment basis (believed to be a better indicator of the economic impact of fiscal policy), the surplus totals $57 billion in 1981, almost 15 times greater than the estimated 1980 result. Unfortunately, this expected budget outcome seems highly unlikely in light of the short-range economic outlook, raising serious questions as to whether, indeed, fiscal policy will reinforce monetary policy in the ongoing effort to curb inflation.

Receipts are slated to rise in fiscal 1981 by more than 14.5 percent to $600 billion. This would reflect sharp increases in individual income tax revenues, Social Security receipts, and an exceptional assist from an energy "windfall" profits tax. It is difficult, however, to reconcile the anticipated run-up in tax revenues with the likely state of the economy. At best, real economic activity will expand at an average annual rate of less than one percent during the eight quarters ending in December 1981. Moreover, stagnant growth will produce sharply higher unemployment rates. The outlook for no growth and high unemployment is hardly consistent with a buoyant increase in income tax revenues.

Interestingly, the budget proposes no tax cuts this election year—whether personal income, Social Security rollbacks, or even some form of investment tax incentives. In fact, quite the contrary has been offered. The ratio of tax receipts to GNP is expected to rise between 1979 and 1981 (Financial Digest—February 4, 1980). Whether such

(continued)

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

Reserve Bank Credit:	Week Ending 1/30/80	Change Since Week Ago	Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	124,785	—1,391	+14,324
Member Bank Borrowings	1,821	+ 624	+ 394
Float	3,683	—1,644	— 5,788
Total Reserve Bank Credit	135,842	—2,276	+ 9,185
Treasury Deposits with Federal Reserve Banks	3,039	— 34	— 438
Currency Outside Banks	108,753	— 825	+ 9,226
Member Bank Reserves:			
Required	44,386	— 696	+ 2,108
Excess (Deficiency)	375	+ 132	+ 45
Total Reserves Held	44,761	— 564	+ 2,153
Net Borrowed Reserves	1,359	+ 483	+ 376
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	80,799	+ 609	—14,963
		r-Revised	
	1/23/80		
Money Supply ($ Bil., SA) M1	380.3	— 2.9	+6.0%
Money Supply ($ Bil., SA) M2	954.9	— 2.6	+8.6%

NEW YORK MONEY MARKET

Offering Rates 2/8/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.96%	11.92%	11.41%
*Federal Agencies	12.70	12.91	12.30
*Project Notes—Tax Free (46% Taxable Equivalent)	NA	NA	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.27	13.52	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	9.00%	Mar.	13.00%
15- 29 days	12.00	Apr.	13.05
30- 59 days	13.00	May	13.05
60- 89 days	13.00	June	13.05
90-179 days	12.00	July	12.95
180-270 days	11.88	Aug.	12.90

‡Industrial Paper—Prime

30- 89 days	12.95%
90-120 days	13.05

‡Federal Funds Effective Rate 12.90%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79	$ 2,456	$ 2,397	$ 2,235
Gross National Product (1972 Dollars)*	4th Q'79	$ 1,438	$ 1,433	$ 1,427
Percent Change, Annual Rate	4th Q'79	1.4%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Dec. '79	14.4%	12.0%	8.0%
Change in Producer Prices*	Dec. '79	9.6%	15.6%	12.0%
Civilian Employment (Thousands of Persons)†	Jan. '79	97,804	97,912	96,157
Unemployment as % of Civilian Labor Force†	Jan. '79	6.2%	5.9%	5.8%
Personal Income*	Dec. '79	$ 2,023	$ 2,000	$ 1,827
Leading Indicators Composite Index (1967=100)†	Dec. '79	136.8	136.8	143.0
Industrial Production Index (1967=100)†	Dec. '79	152.2	151.8	151.8
Net Change in Consumer Instalment Credit†	Dec. '79n	$ 1.55	$ 2.41	$ 4.40
U.S. Merchandise Trade Balance†	Dec. '79	—$ 3.08	—$ 1.42	—$ 1.75
Plant and Equipment Expenditures*	1st Q'80	$189.32(a)	$179.56	$165.94
Private Housing Starts (Thousands of Units)*	Dec. '79	1,527	1,522	2,074
New Construction Expenditures*	Dec. '79n	$ 239.6	$ 237.4	$ 223.2
Total Business Inventories†	Nov. '79	$ 424.2	$ 421.2	$ 376.8
Total Business Sales†	Nov. '79	$ 299.2	$ 299.1	$ 269.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (1/23/80)	91,824	— 581	— 5,919
New York City (1/30/80)	20,298	+ 434	— 8,841
Commercial Paper (1/23/80)	117,425	+1,951	+31,246

BANK LOANS
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/80)	156,446	— 567	+23,869
New York City (1/30/80)	46,973	+ 87	+ 8,814
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/80)	393,267	—4,955	+54,619
New York City (1/30/80)	88,474	+ 985	+12,358

SECURITY MARKETS

	Friday 2/8/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	12.10%	— .06	+ 2.76
180-Day Bills (Discount Basis)	12.11	+ .07	+ 2.69
Longest Bills (Discount Basis)	11.62	+ .27	+ 2.22
11½s 1/31/82	98.21	— 14/32	
11⅞s 8/15/83 (W.I.)	100.8	NA	
10¾s 11/15/89	94.12	—2-14/32	
10½s 2/15/95	90.28	—3-9/32	
11¾s 1/15/10 (W.I.)	100.18	NA	
Municipals:			
Bond Buyer—20 Bond Index* (2/7/80)	7.71%	+ .19	+ 1.40
Blue List Total ($ Million)	$ 771	—$ 95	+$ 59
30-Day Visible Supply ($ Million)	$1,073	—$ 3	—$ 648
Total	$1,844	—$ 98	—$ 589
Corporates:			
Moody's Aa Composite (2/7/80)	12.28%	+ .41	+ 2.81
Money Mgr.—30-Day Supply ($ Million)	$1,432	—$ 308	—$ 59
Stocks:			
Dow-Jones Averages			
Industrials	895.65	+ 14.17	+ 73.23
Transportation	305.80	+ 22.30	+ 98.07
Utilities	111.33	+ 1.01	+ 8.12
65 Stocks	329.59	+ 10.74	+ 51.23
Standard and Poor's 500 Stocks	117.95	+ 2.83	+ 20.08
N.Y.S.E. Composite Index	67.57	+ 1.30	+ 12.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	50,544	— 4,068	+25,300

***46% Taxable Equivalent 14.28%**

INTERNATIONAL RATES

	Friday 2/8/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.13%	13.56%
1 month	13.88	13.94
3 months	14.38	14.25
6 months	14.38	14.25
1 year	14.63	13.81
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.67%	12.20%
Long Term (10 to 15 yrs.)	11.75	12.40
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03544	.03527
Canada	.8627	.8652
France	.2450	.2445
Germany	.5752	.5728
Italy	.001239	.001235
Japan	.004139	.004158
Mexico	.04378	.04380
Netherlands	.5214	.5190
Switzerland	.6159	.6110
U.K.	2.2975	2.2705

a jump in the tax take can be realistically anticipated in an election year characterized by a stagnant economy and rising unemployment is uncertain.

On the expenditure side, total outlays are projected to rise by 9.3 percent to $616 billion in fiscal 1981, barely keeping pace with the expected rate of inflation. As with receipts, however, it is unclear how closely the expenditure estimates will conform with reality. For example, although defense outlays are budgeted to rise by about 12 percent to $146 billion, actual expenditures may increase much more rapidly as a result of ongoing inflation, the need for more liberal pay and benefit packages to retain highly skilled personnel, as well as any further heightening of international tensions. In addition, the combined impact of slow growth and rapid inflation can be expected to upset even the best laid expenditure plans in a variety of ways. Cost-of-living adjustments for Social Security recipients could be greater than anticipated, the Federal employee wage bill could also increase faster, and countercyclical spending for such items as extended unemployment insurance benefits could rise rapidly.

PETROLEUM USE IS ALREADY DECLINING

Last week, the Energy Department once again announced a new standby energy conservation plan including a nine-point gasoline conservation program. The overall package includes restrictions on car and pleasure boat use, a mandatory four-day workweek, further lowering of the 55 mile per hour speed limit, and the reduction in the school week to four days. Apparently, the Energy Department has decided that, despite impressive reductions in U.S. petroleum consumption in 1979, more is required.

In 1979, Americans reduced their consumption of energy relative to the size of the economy. Preliminary government data indicate that total energy consumption remained flat in 1979 despite a 2.3 percent growth in real GNP. Historically, each one percent rise in the real gross national product would be accompanied by a one percent rise in energy consumption. In particular, U.S. petroleum demand in 1979 declined by nearly two percent from 1978, in sharp contrast to the average growth rate of five percent per year experienced since 1975.

Increasingly effective use of petroleum products was evident across the board. Consumption of gasoline, home heating fuel, and residual oil declined significantly compared with 1978. Demand for jet fuel rose only slightly, even though miles flown increased by seven percent. This data demonstrates a reversal of the long-term trend of substitution of petroleum for other forms of energy. In fact, the share of petroleum in total energy consumption declined by almost one percentage point during the first ten months of 1979, to 47.6 percent from 48.5 percent registered in 1978.

Gasoline demand—which represents almost 40 percent of all petroleum consumed—plummeted during 1979, mostly in response to skyrocketing prices. Consumption declined by 5.1 percent from year-earlier levels, even with a three percent advance during the first quarter. Interestingly, several times during the second half of the year, consumption dipped below comparable 1973 levels despite a 20 percent increase in the number of vehicles on the road. Although deliveries of distillate fuels from refineries (which include home heating oil and diesel fuel) declined by less than three percent, regional studies indicate that actual consumer demand for home heating oil fell by some 15 percent, resulting in excess inventories held by heating oil dealers. The drop in demand—significantly above that attributable to the unexpected warmer weather—is in response to sharply higher prices which led to lowering of thermostats and stepped-up substitution of oil alternatives such as natural gas and wood stoves.

In the industrial sector, growing use of natural gas and coal resulted in an eight percent drop in residual fuel oil deliveries. Natural gas sales to industrial customers, for example, rose by 20 percent in the past two years. And jet fuel deliveries advanced by about six percentage points less in 1979 than the increase in the number of miles flown. The volume of passengers per gallon of jet fuel consumed has increased by almost one-half since 1973 through the use of more fuel-efficient aircraft, reduction in idling time, and improved scheduling efficiency.

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